INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 24 January 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today’s meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors. The persistence of uncertainties in particular relating to geopolitical factors and the threat of protectionism is weighing on economic sentiment. At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence in the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus remains essential to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This will be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council’s inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.2%, quarter on quarter, in the third quarter of 2018, following growth of 0.4% in the previous two quarters. Incoming data have continued to be weaker than expected as a result of a slowdown in external demand compounded by some country and sector-specific factors. While the impact of some of these factors is expected to fade, the near-term growth momentum is likely to be weaker than previously anticipated. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, lower energy prices, and the ongoing – albeit somewhat slower – expansion in global activity.

The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.

Euro area annual HICP inflation declined to 1.6% in December 2018, from 1.9% in November, reflecting mainly lower energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline further over the coming months. Measures of underlying inflation remain generally muted, but labour cost pressures are continuing to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth moderated to 3.7% in November 2018, after 3.9% in October. M3 growth continues to be backed by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations stood at 4.0% in November 2018, after 3.9% in October, while the annual growth rate of loans to households remained broadly unchanged at 3.3%. The euro area bank lending survey for the fourth quarter of 2018 suggests that overall bank lending conditions remained favourable, following an extended period of net easing, and demand for bank credit continued to rise, thereby underpinning loan growth.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the Governing Council reiterates the need for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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My first question relates to your assessment, that risks have moved to the downside. What sort of implication will that have for your policy and especially for your forward guidance?

My second question, you told us in December that at some point you asked committees to start work on TLTROs. Have they already been put to work? Have they been tasked with looking into TLTROs?

Draghi: Well, today we didn't discuss the implications. Today's meeting was essentially devoted to an assessment. Where are we? Why are we here? How long will this slowdown last? Is the slowdown going to worsen or stay as a shallow lower path? These were the questions that were asked.

On the second question, several speakers actually raised this issue but no decision was taken because we didn't discuss policies this time. We only were focused on the assessment. Quite clearly, the assessment will have implications about policy but we didn't discuss them.

Given that data have disappointed on the downside, fairly consistently since your last meeting what gives you confidence that your economic assessment is actually correct and there is going to be a rebound?

My second question is quite similar, which is about core inflation, you predicted a vigorous rise in core inflation towards the end of last year. It didn't happen and it's still not happening. Again what gives you confidence that your assessment is correct?

Draghi: It's basically one question, really. You see, underlying inflation has been muted, has been moving sideways, it's higher than the low levels reached about a year ago and … On what our confidence is based, it is based on the continuation of the economic expansion. It is based on the strong labour market performance, though it's slowing down. It's based on the encouraging pick-up in wages, nominal wage growth has gone up especially of course in the core countries and especially in Germany. Both compensation per employee and negotiated wages show a pick-up, consistent significant pick-up. So the issue is we see all these components moving in the right direction and so the question is why haven't they passed through? Why aren't they being passed through into higher prices? What we are observing is that there is a profit squeeze so it's a matter of time that of course this pass-through will happen first in the parts of the eurozone where the labour market is stronger, unemployment is lower, especially in some countries where basically there is full employment. Then gradually it will expand to other countries. That is what really gives us [confidence]. Then of course the financing conditions and our monetary policy that remains fully accommodative, strengthens our confidence in this process.

You were saying that this meeting was more or less for the assessment of where we stand when it comes to the economy and how long the potential downturn will last or how long will it last in your view?

Another question is whether you're happy with what the market is pricing in, in terms of interest rate hike because now the market is only pricing in the first hike in 2020. You are still guiding us more or less for the full period of this year, so what's your view here? Is the market right? Or do you need to upgrade or update us on your forward guidance?]

Draghi: Since you're all asking, let me give you a summary of the meeting now. First of all, what you care most, were we unanimous? Okay, we were unanimous about acknowledging the weaker momentum and changing the balance of risk for growth. We're all in agreement on that and we were unanimous in assessing the factors that have caused the slowdown, namely first and foremost there is an increase in general uncertainty. This increase in general uncertainty has been produced by the threats of protectionism, doubts – actually extensive doubts – about the multilateral rules that have underpinned our growth since the Second World War. The protracted and unclear outcome, the protracted negotiations and their unclear outcome yet about Brexit and of course the implications that this might have, I have said many times that if you compare the potential disruption coming from Brexit for the aggregate of the euro area, well, just looking at aggregate numbers it doesn't seem to be an extensive disruption. But we have to take into account things like value chains and we have also to take into account that some countries are more exposed, of course, to events in the Brexit case. We follow that.

But that just is a sign of a contribution to the increase in general uncertainty and then of course we have the political developments in some countries in the eurozone. This is one set of factors. There is another set of factors that is specific; factors that are specific to certain countries and this has to do with the slowdown in China and the waning effects of fiscal package in the United States and the car industry in Germany. All this, it's a pretty long list of factors so the issue is now, and that's again there was unanimity, in saying that the key aspect to assess is the persistence of the general uncertainty as being produced by these factors. Certainly if all this were to persist, we should expect a longer weak momentum beyond the near term.

Then finally there was also quite, I would say, unanimity about assessing the likelihood of a recession as being low. Now, again I don't want to give numbers here but some of them are very low, others are on the average since the last 60 years or 50 years. So in any event pretty low – of course again in an area like the eurozone, these estimates ought to be taken with some caution because if you have a serious recession in one part of the eurozone, that can spread to other parts. Basically, it was unanimity about assessing this likelihood as low.

Also why was it low? Because financing conditions continued to be basically very favourable. Developments in the labour market continued to be positive. Nominal wage growth continues to be significant and of course the lower energy prices support real disposable income for households. Also there is another factor to keep in mind that makes the present situation different from the situation we had at the beginning of the great financial crisis. This time banks' balance sheets are much stronger than they were before the crisis. Now, of course we have local episodes of weakness but by and large, the banking sector is much stronger than it was at the beginning of the crisis. So the conditions for a continuation of credit to the economy are in place.

Then the discussion focused on persistence and there were two viewpoints. For some, China, the slowdown in China won't last long because we have confidence – and we do have confidence – in the government's measures. Everything we know says that the government is actually taking strong measures to address the slowdown. The trade disputes will wane. In the end, the Brexit thing will not affect the EU economy that much, but especially there was one aspect of the discussion is that all these uncertainties, all these risks are being addressed by the policy response of the authorities in these countries. The specific episode of the car industry in Germany will soon wash out because there is going to be a rebound in the sector.